

MUNICIPAL DEVELOPMENT PROGRAM FOR PORTO ALEGRE

(BR-0256)

EXECUTIVE SUMMARY

BORROWER: Municipality of Porto Alegre

GUARANTOR: Federative Republic of Brazil

EXECUTING AGENCY: Municipality of Porto Alegre

AMOUNT AND SOURCE: IDB: US\$ 76.5 million (OC)
Local counterpart funding: US\$ 76.5 million
Total: US\$153.0 million

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Disbursement period: 5 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: dollars of the United States of America
(Single Currency Facility)

OBJECTIVES: The objective of the proposed program is to increase the well-being of the inhabitants of Porto Alegre by:
(i) making the municipal administration more efficient in the performance of its functions;
(ii) improving the efficiency of municipal agencies providing sanitation, environmental control and road maintenance and safety services; and (iii) carrying out works to upgrade roads and other basic infrastructure in low-income neighborhoods.

DESCRIPTION: To achieve these objectives, three subprograms will be undertaken:

1. Administrative modernization (US\$10.1 million)

This subprogram will support efforts by the Municipality of Porto Alegre (PMPA) to achieve greater efficiency in delivering services to the community, and in the management of its financial resources. The increase in efficiency will be achieved by reorganizing working methods and procedures, introducing new technology and strengthening human resources. In addition, special attention will be given under this subprogram to improving the municipality's tax and financial administration.

2. Institutional strengthening (US\$5.25 million)

This subprogram will finance activities to strengthen the municipal agencies involved in delivering sanitation, environmental and road maintenance and safety services. It will also provide financing for drawing up the bicycle path master plan.

3. Urban infrastructure (US\$79 million)

This subprogram includes establishment of a third direct north-south access route in the city Perimetral III, with bus-only lanes and totaling 12.3 km in length. It will also provide for upgrading basic infrastructure in low-income neighborhoods through construction of storm drainage, water supply and (in some cases) sewerage systems, as well as paving of streets selected by the community.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy and operations program for Brazil during the period 1995-1997 is entirely consistent with the objectives of the Eighth Replenishment, and with the systematic approach adopted by the government in its efforts to eliminate the causes (and minimize some of the social consequences) of chronic inflation and address the need for further modernization of the economy. The main components of the Bank's strategy emphasize the need to: (i) promote public sector reform and modernization at the national and subnational levels; (ii) further the process of opening up the economy by modernizing the productive sectors and supporting initiatives to reduce the cost of doing business in Brazil by rehabilitating and upgrading the country's transportation infrastructure and port facilities; and (iii) eliminate socioeconomic disparities and reduce poverty through more effective public spending and better targeting of social programs. To this end, support will be given continue decentralizing the delivery of social services, in part by forming more partnerships with local communities and civil society. At the same time, the present strategy represents a continuation of the Bank's traditional emphasis on basic sanitation and the environment.

**ENVIRONMENT AND
SOCIAL IMPACT:**

The Environmental and Social Impact Report (ESIR) was approved by the CESI on September 12, 1997, and forwarded to the PIC on October 17, 1997. The impact of this type of program is mostly temporary and easily mitigated, mainly through the enforcement of local legislation and procedures for environmental protection. A document consolidating all the procedures for environmental control applicable to the program will be prepared and included in the bidding documents (paragraph 3.29).

BENEFITS:

Improve services for residents without increasing operating costs by: (i) cutting the average time it takes the PMPA to complete five of its most important procedures by at least 50%; (ii) easing the burden on taxpayers by introducing electronic methods of filing; and (iii) making it easier for municipal service providers to collect charges for services rendered.

Make more efficient use of public resources by reducing the operating costs of the municipal administration by 5%-10% and increasing tax revenues by 10%-15%.

Increase the efficiency of the agencies providing

basic sanitation, environmental control, and road maintenance and safety services through institutional strengthening activities. By the end of the program execution period, it is expected that: (i) the Municipal Department of Water and Sewerage (DMAE) will have increased the number of customers (for water and sewerage) per employee to 350 and introduced a system for external control of the DMAE; (ii) the Municipal Office of the Environment (SMAM) will be monitoring the 150 industrial establishments with the highest pollution potential, and will be operating under its own resources and with the equipment needed to carry out its duties; and (iii) the Municipal Office of Works and Highways (SMOV) will have installed a computerized system for preventive maintenance covering at least 30% of Porto Alegre's roads, and its road safety program will have reduced traffic accidents by at least 20%.

Raise the standard of living and productivity of the population by: (i) reducing north/south crosstown travel time; (ii) promoting the creation of new business centers to cut travel and reduce congestion in the downtown area; (iii) adopting measures to assist bus travelers in reaching their ultimate destination; and (iv) improving conditions for integration of the physical infrastructure and fee schedules of the urban and metropolitan mass transit systems.

Provide basic urban infrastructure, including paved roads, storm drainage, water supply and (in some cases) sanitary sewerage for 7,500 families.

Reduce program costs for upgrading of basic infrastructure by adopting systems to improve planning and minimize costs for construction projects.

RISKS:

The necessary expropriations and resettlement of families could delay execution of the Perimetral works. The creation of specific coordinating units with the resources needed to carry out these tasks should reduce this risk.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Prior to the first disbursement of the loan, the borrower must submit the following to the Bank: (i) evidence that the Program Coordinating Unit (UCP) has been established and assigned the necessary technical and administrative personnel, according to parameters agreed upon with the Bank (paragraph 3.1 and 3.3); (ii) evidence that the Operating Regulations for the multiple-works component of the program, prepared according to the model previously agreed upon with the Bank, have entered into force (paragraph 3.16); (iii) evidence that an agreement has been signed between with the DMAE establishing the conditions for transfer, operation and maintenance of the water supply and sewerage works by the DMAE, and indicating the obligation of the DMAE to repay them (paragraph 3.17); (iv) evidence that an agreement has been signed with PROCEMPA establishing the conditions for the procurement of goods and the hiring of consulting services on the part of PROCEMPA

using program resources (paragraph 3.17); and (v) evidence that the final resettlement plan for the families affected by the Perimetral III works has been prepared (paragraph 3.23).

Within six months after signature of the contract, the borrower must submit to the Bank evidence that the consulting firm to carry out the studies and draw up the proposed external control system for the DMAE has been hired (paragraph 3.9).

Within 12 months after signature of the contract, the borrower will submit, to the satisfaction of the Bank: (i) evidence that consulting firms responsible for preparation of the data base of the urban road system and implementation of the road maintenance system have been hired (paragraph 3.6); (ii) a plan for the collection of past due accounts held by the DMAE with the State of Rio Grande do Sul, with semiannual targets (paragraph 4.11); (iii) the first data collection report, which will include a listing of the data and a detailed description of the procedures to be used for its collection and processing (paragraph 3.38); and (iv) evidence that the Participatory Budget Committees have been apprised of the cost-cutting measures introduced under the projects to upgrade basic infrastructure (paragraph 5.14).

Within 30 months after signature of the contract, the borrower must submit, to the satisfaction of the Bank evidence that: (i) the external control system for the DMAE has been introduced (paragraph 3.9); and (ii) the georeferenced data base of the road system and the preventive road maintenance system have been implemented. Commitment of the resources of the third tranche for the Perimetral and ancillary works will not be authorized until this condition has been satisfied (paragraph 3.6).

Within 42 months after signature of the loan contract, the borrower will submit evidence, to the satisfaction of the Bank, that the computerized road maintenance system has been implemented.

Disbursement of resources for construction of the Perimetral will be subject to submittal of the following by the borrower to the Bank: (i) evidence that the consulting firm to support the SMOV in the supervision of the Perimetral works has been hired in accordance with terms of reference previously agreed upon with the Bank (paragraph 3.5); (ii) a report from the Municipal Council on Historical and Cultural Heritage (COMPHAC) indicating its recommendations for preservation of six locations identified as possible historical sites (paragraph 3.19); (iii) evidence that agreements have been signed between the municipality and the state, and between the municipality and the federal government, establishing conditions for the transfer of land owned by the state or federal government and required for construction of the Perimetral (paragraph 3.19); and (iv) evidence that the borrower is in legal possession of the land to be used for resettlement of

low-income families affected by the Perimetral (paragraph 3.23).

Before issuing calls for bids on any works project, the borrower must: (i) demonstrate that it is in legal possession of the land on which the construction will be carried out and that the land is available for moves to begin (paragraph 3.20); and (ii) draw up and submit to the satisfaction of the Bank a document listing the environmental controls and procedures it will follow to mitigate any adverse environmental impact during construction works carried out under this program, which document will be included in the bidding documents (paragraph 3.30).

Physical initiation of the multiple-works projects to upgrade basic infrastructure must take place within a period of 48 months following signature of the loan contract (paragraph 3.25).

The borrower has requested that US\$4 million in expenses incurred up to 18 months prior to approval of the operation by the Board of Executive Directors for the purchase of computer equipment and programs be recognized as part of local counterpart funding. The project team has reviewed the procedures followed and recommends that this request be granted (paragraph 3.27).

Within 30 months after the effective date of the loan contract, or once 50% of the program resources have been committed, whichever occurs first, the Bank will conduct a mid-term review mission. The review will be based on the semiannual reports submitted by the PMPA, achievement of the performance indicators, and the progress made in the implementation of the preventive road maintenance system. Should it be ascertained that satisfactory progress has not been made, the Bank and the PMPA will agree on the necessary measures and adjustments and on a timetable for their implementation.

**POVERTY-TARGETING
AND SOCIAL
CRITERIA:**

This project does not qualify as addressing social equity and poverty reduction according to the Eighth Replenishment document (AB-1704, paragraph 2.13 and paragraph 2.15), since less than 50% of its beneficiaries will be members of low-income groups.

**EXCEPTIONS TO
BANK POLICY:**

At the request of the Government of Brazil, the guarantee contract to be signed for this program will not include a guarantee by the federal government to provide local counterpart resources or to fulfill any obligations undertaken by the borrower that do not fall within the official purview of other than those assigned to the federal government.

This decision was based on provisions of the Constitution and legislation of Brazil regarding government policy aimed at bringing order to public spending. The financial analysis carried out shows that the borrower has sufficient financial capacity to supply the counterpart resources necessary for proper execution of the program.

**PROCUREMENT
OF GOODS, HIRING
OF CONSULTING
SERVICES, AND
AWARDING OF
CONSTRUCTION
CONTRACTS:**

The Bank's current policy on the procurement of goods and the awarding of contract for works and consulting services to be financed with program resources will be followed. Where proceeds from the IDB loan are used, international competitive bidding will be required whenever the value of goods or services to be procured is equal to or greater than: US\$5 million for works, US\$350,000 for goods, and US\$200,000 for consulting services.